

CHAPTER 14QUALITY ASSURANCE PROGRAMSA. PURPOSE

This chapter prescribes policy- for establishment of quality assurance ~~pro-~~grams in **conformance** with **applicable** Government Auditing Standards (reference (c)) and **DoD** Internal Auditing Standards, and describes the essential elements of such programs in **DoD internal** audit organizations.

B. APPLICABILITY

This chapter **applies** to all DoD internal **audit**, internal review, and **non-**appropriated fund audit organizations (hereafter referred to collectively as "**DoD** internal audit organizations").

C. RELATED GOVERNMENT AUDITING STANDARDS

1. The **Government** Auditing Standards (reference (c)) prescribe general standards for conducting financial and performance audits. The fourth general standard relates to the presence of quality controls. **The** standard states that "Audit organizations conducting government audits should have an appropriate internal quality control **system** in place and participate in an external quality **control** review program. "

2. The second field work standard for Government performance audits is, "Staff are to be properly supervised. " This standard places responsibility **on** the auditor and **audit** organization for seeing that staff who are **involved** in **accomplishing** the objectives of the audit receive appropriate guidance and supervision to ensure that the audit **work** is properly conducted, the **aud it** objectives are **accomplished**, and the staff are provided effective **on-the-job** training. External consultants and specialists also should be given appropriate guidance .

D. POLICY

1. **To** maintain the confidence and trust of **DoD** management, the Congress, and private citizens, **DoD** auditors shall provide objective, reliable, timely, and professional audit products. The value of the services provided by **DoD auditors** is related directly to the quality of the audit work **performed**. In addition, the professionalism of **DoD auditors** is critical to acceptance and use of their work by **DoD** managers in improving and strengthening **DoD** programs and operations.

2. Each **DoD** internal audit organization shall establish and maintain a viable and effective quality assurance program that provides reasonable assurance to parties inside and outside the Department of **Def ense** that **DOD auditors comply** with applicable auditing standards and **DoD** audit policies, and that work is carried out **economically**, efficiently, and effectively. Each organization's quality assurance **program** shall incorporate the elements of supervision, internal quality control reviews, and external quality control reviews **as described** in the following sections of this chapter.

3. The **DoD** internal audit organizations shall establish a supervisory process which ensures audits are planned and **completed** in accordance with applicable auditing standards, **DoD** auditing policies, and internal organization policies and procedures. The **supervision** process shall ensure that audit work is supported by clear, demonstrable, and objective evidence that is documented in audit working papers.

4. The internal quality control system established by the audit organization should provide reasonable assurance that it:

a. Has established and is following adequate audit policies and procedures.

b. Has adopted and is following applicable auditing standards.

5. Organizations conducting government audits should have an external **quality** control review at least once every 3 years by an organization not affiliated with the organization being reviewed. The external quality control review program should determine that:

a. The organization's internal quality control system is in place and operating effectively.

b. Established policies, procedures, and **applicable** auditing standards are being followed in its audit work.

E. SUPERVISION

Supervision is the first and most important step in a quality assurance program and **it** is a continuing process on all audit assignments within an audit organization. Responsibility for all audits remains with the head of the audit organization. However, the head of the **audit** organization may delegate audit tasks to audit managers or supervisors, who in turn may delegate these tasks to audit teams. Delegation requires that audit managers at all **levels** establish methods that ensure **audit** assignments are planned, controlled, and directed properly. The degree of control may vary among audit organizations and audit assignments.

1. Supervision is the most effective way to ensure **audit** quality. To supervise effectively, supervisors should be involved in every phase of the **audit**, from planning to the **final report**. Supervisors should make sure **auditors** understand, without ambiguity, the nature, scope, content, and timing of the work assigned to them and the expected end product. Supervisors should review progress periodically on audit projects to determine whether **jobs** are on schedule and executed in accordance with plans. Supervision should be sufficient to make any required mid-course corrections without disrupting the audit assignment.

2. The actual amount of supervision required may vary based on availability of resources, **complexity** and sensitivity of audit work, and staff experience. However, supervision should be exercised at each level of the organization and for each level of task responsibility. Most audit assignments include the following phases: coordination, planning, survey, audit performance or application, and reporting. During these phases, supervisors should concentrate on the following:

a. **Coordination.** To ensure quality audit performance and efficient use of resources, supervisors should be aware of other audit projects within the audit organization and in other Federal audit activities. Supervisors should maintain open lines of **communication** with the headquarters of the audit organization and with other field offices in the organization. The objective of open **communication** is to reduce the overlap of audit projects and enhance the quality of audits. Supervisors **should** share ideas on audit design, **audit** planning, audit survey scope and techniques, audit objectives, audit approaches, training needs and audit workload.

b. **Planning.** Supervisors should establish the overall direction of the audit effort; determine the best use of available resources; establish goals and objectives for audits that make sure programs, activities, and segments of agency operations are covered adequately; and coordinate audit efforts with review efforts of other activities **such** as the military inspector general offices. Chapters 5 **and** 8 of this Manual prescribe additional guidance relating to planning for both individual **audit** assignments and the **development** of an annual audit program.

c. **Survey.** Supervisors should approve the survey approach, estimate time required for the survey, and establish milestones for review of survey results.

d. **Program.** After reviewing survey results, supervisors should modify overall objectives **if** necessary, identify the steps or segments requiring further audit **work**, and determine any program modifications needed to fulfill the **audit** objectives. Supervisors should also estimate the time required for the detailed **audit** review and establish milestones for review of the program development.

e. **Audit Performance**

(1) **Project Reviews.** Supervisors should review audit projects periodically to make sure they meet applicable auditing standards and DoD internal **audit** policies. Supervisors should use onsite visits to assist in project management, solve specific problems during audit application, provide technical assistance, counsel and train **audit** team members, and review overall management of the audit.

(2) **Reviews of Working Papers.** Supervisory reviews of audit working papers are essential to ensure reports are supported with clear, **demonstrable**, and objective evidence. These reviews can **be** tailored to the particular situation and individual, but should provide enough information to supervise projects properly and to evaluate staff **performance**. Problems discovered during working paper reviews should be discussed and resolved **promptly**; working **papers** should be revised to preclude any misinterpretation or unsupported conclusions. Working **papers** should be reviewed periodically throughout the audit. All supervisory reviews of working papers should be documented and retained. Supervisory reviews of audit work and the report should be timely and determine whether:

(a) Conformance with **audit** standards is **obtained**.

(b) The audit programs are **followed** unless deviation is justified and **authorized**.

(c) The **audit** work has been conducted with due professional care.

(d) The working **papers** adequately support findings and conclusions and provide sufficient data to prepare a meaningful report.

(e) The **audit** objectives are met.

Chapter 18 of this **Manual** prescribes additional guidance on the review of audit working papers.

f. Reporting. **Auditors** should prepare a **report** outline and discuss preparation of the initial draft report with their supervisor. First-level supervisors should review the draft **audit** report, and the second-level supervisors should review **comments** and the results of any discussions with management concerning the **audit** results. Based on these reviews, the **second-level** supervisor finalizes the audit report, making sure the audit report **complies** with the **applicable** auditing standards and **DoD audit** policies on reporting. Chapter 12 of this Manual prescribes additional guidance on reporting audit results.

F. **INTERNAL QUALITY CONTROL REVIEWS**

Internal quality control reviews, the **second** step in an effective quality assurance program, are periodic reviews of selected audits, organizational functions, or internal processes, conducted by an independent element within the audit organization. During the internal quality control review, an in-house team evaluates the adequacy and effectiveness of the **audit** organization's policies and procedures, and determines whether the audit work meets applicable **auditing** standards and **DoD** auditing policies. Essential elements of an effective internal **quality** control review program include: formal policies and operating procedures; workload identification and planning; assignment and training of permanent staff; and adherence to Government Auditing Standards (reference (c)) and **DoD** Internal Auditing Standards for performing reviews and reporting results.

1. The nature and extent of an organization's internal quality control system depends on a number of factors such as its size, the degree of operating **autonomy** allowed its personnel and its **audit** offices, the nature of its **work**, its organizational structure, and its appropriate cost-benefit considerations. Thus, the systems established by individual organizations, as well as the extent of their documentation, will vary.

2. Each **DoD** internal **audit** organization shall develop and issue formal policies establishing an internal quality control review program consistent with this chapter. Formal **policies** should prescribe responsibilities and procedures for planning and performing internal quality control reviews and reporting the results of reviews.

3. Each major element of the **audit** organization **should** receive an internal quality control review at least once every 3 years. Major elements **include** divisions, regions, large field offices, or residencies. As an alternative, selected functional areas may be reviewed on an **across-the-board** or **Agency-wide** basis, provided there is representation given to the various elements within the

organization. Internal quality control reviews should emphasize matters relating to the **accomplishment** of audit projects; that is, planning, survey, and field work, **including** preparation of working papers and reporting.

a. **Annual** and long-range plans should be **developed** to ensure the 3-year internal quality control review requirement is met. Once experience shows that an effective quality standard has been achieved by the major elements of the audit organization, consideration can be given to reducing the 3-year review frequency. Subjects for internal quality control reviews should **be** solicited from all levels of the audit organization. Internal quality control **review plans** **should** be published annually, and sufficient resources should be **allocated** to **accomplish** the **annual plan**. The **long-range** plan should include audit **issues/standards** to be reviewed, objectives, **time frames**, and resource requirements.

b. **Compliance** with Government Auditing Standards (reference (c)) is the basis for how **audit** work is **judged** by external quality control review teams. Accordingly, the Government **Auditing** Standards, **DoD** Internal **Auditing** Standards, and DoD auditing policies should form the baseline for planning internal quality control reviews. To facilitate the planning process and the setting of priorities, an inventory of internal quality control review subjects should be developed and maintained. For example, the inventory should **include** **audit** planning, audit performance, **audit reporting and followup**, as well as issues raised **in** external quality control reviews.

4. A permanent staff should be assigned to **fulfill** the internal quality **control** review requirement, and the organizational placement of the staff should provide for sufficient independence. Assignment of **permanent** staff enhances individual expertise and provides for added **program** continuity.

a. The permanent staff, which may be augmented as needed, should be highly **qualified**, experienced auditors. These qualifications are essential for ensuring the credibility of the internal quality control review program and for enhancing the **level** of professionalism in the audit organization.

b. Formal or on-the-job training may be **needed** for newly assigned members to the internal quality control review program. At a **minimum**, gaining an appreciation and exchanging information on **approaches** used by other audit organizations in **accomplishing** their internal quality central review program would be beneficial.

5. Internal quality control reviews, like an **audit**, should be performed in accordance with Government Auditing Standards (reference (c)), **DoD** Internal Auditing Standards, and **DoD** auditing policies.

a. Review objectives should be established, and conditions found during the review should be documented and retained in working papers.

b. A formal written report should be prepared and issued on the results of each internal quality control review. The report should **specifically** address each review objective. The report should also **recommend corrective** actions, when appropriate; **include comments** from the **organizational elements** reviewed, followed by an evaluation of the **comments**; and establish target dates for **implementation**. Recommendations should be tracked until fully implemented

or otherwise satisfactorily resolved. when significant deficiencies are identified, a **followup review** to determine that adequate corrective actions were taken may be appropriate.

c. **All** working papers and regrets of internal quality control reviews should be retained for 3 years for use by external quality control review teams.

G. EXTERNAL QUALITY CONTROL REVIEWS

Within the Department of Defense, external quality control reviews of internal audit organizations will normally be **conducted** by the Office of the Assistant Inspector General for **Audit** Policy and Oversight, **OIG, DoD**, with the assistance of representatives **from** the DoD internal audit organizations as needed. The **DoD** central internal **audit** organizations, using guidelines published by **OIG, DoD**, are responsible for external quality control reviews of the internal review and nonappropriated fund **audit** activities for which they have audit cognizance. Generally, **OIG, DoD**, will limit its external quality **control** reviews of internal review and nonappropriated fund audit activities to assessing how well the central internal **audit** organizations carried out their external reviews. The General Accounting Office **conducts** similar quality control reviews of **DoD** internal audit organizations.

1. The objectives of the external quality **control** reviews are to ensure **DoD** internal audit organizations adhere to **Government** Auditing Standards (reference (c)), **DoD** Internal Auditing Standards, and **DoD** auditing **policies** and operate in an economical, efficient and effective manner.

2. External quality control reviews should be conducted in accordance with **applicable** auditing standards **and** quality control review guidelines. The team leader of the review **should** observe **the** requirement for holding entrance and exit conferences and for discussing periodically the progress of the review with appropriate managers in the **audit** organization.

3. External quality control review team members should be selected based on the requirements of a particular review. Functional experts from inside and outside the Department of **Def**ense may augment the quality control **teams** in certain specialized or technical areas. The staff **members nominated** for the external quality control review team should not **have** been associated in the past 2 years with the organization subject to review.

4. Before starting an external quality control review, the review team should collect background information **about** the audit organization, **including** its organizational environment and governing policies **and** procedures. The review team is encouraged to use questionnaires to **gather** background data, identify related audit policies and procedures, obtain opinions of the audit staff on **policies** and procedures used by the **audit** organization, and solicit **opinions** of auditees regarding the relationships of the audit organization and its clients.

5. External quality control reviews should be conducted on a recurring schedule and **should** normally **include** each audit organization at least once every 3 years. As an alternative, selected functional areas may **be** reviewed on an across-the-board or Agency-wide basis. As with any audit, the scope, objective, and work program of the quality control review should be tailored to meet specific situations.

6. A formal written report should be prepared **and** issued on the results of each external quality control review. The report should specifically address each review objective and express an opinion, as appropriate, as to the **audit** organization's **compliance** with Government Auditing Standards (reference (c)), **DoD** Internal Auditing Standards, and **DoD auditing policies**. The **report** should also **recommend** corrective actions when appropriate; include cements **from** the organization reviewed, **followed** by an evaluation of the **comments**; and establish target dates for implementation. **Recommendations** should be tracked until fully **implemented** or otherwise satisfactorily resolved. When significant def **iciencies** are identified, a f **ollowup** review to determine that adequate corrective actions were taken may be appropriate.

7. Working papers and reports of external quality control reviews should **be** retained for 3 years f ran the date of the final report.